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Shopping Centre Investments Ltd

CHAIR'S REPORT FOR THE YEAR ENDED 28 FEBRUARY 2025

The past twelve months have been characterized by a number of events, both internal and external, which have positively impacted upon the operations of the Company.

The reduction in interest rates in the latter part of the financial year has been a dominating factor and the floating interest rate charges have been further influenced by the determination of the Board to complete the sale of the adjoining properties at 7-11 and 13-17 Chalmers Street on the 14 November 2024. The resultant realized gain on sale is identified within the Annual Accounts.
These proceeds were applied to the ASB Bank term loan and resulted in an improvement to the covenant conditions imposed. From these outcomes the Bank has reduced its interest rate margin.

Despite the negativity surrounding the present economic conditions the Centre's total sales turnover continues to improve with a corresponding uplift in foot traffic numbers.
Though modest, this is identified by the increase in Operating Income from the previous year.
As previously communicated the Fashion precinct continues to be problematic with some vacancies being apparent. The reduction in rental income is not as significant as perceived as these tenancies were subject to onerous Operating Cost Caps resulting in end of year adjustments.
There have been recent changes to the leasing team at Colliers and new initiatives have been orchestrated, previous drawn-out negotiations have been concluded, dynamic alternatives are in train and the negative Occupancy Cost Cap impacts have been softened. Despite the current market conditions there is a climate of optimism within the Board.

Operating Income and Distribution Growth

Operating Profit has improved by 44.8% and this does not include such items as the unrealized gain in the value of the property nor the realized gain on sale of the Chalmers Street properties but does include the continuing costs of the measured escalator improvement campaign.
The Audit Fee cost is an anomaly due to a change in the accrual calculation; the annual cost remains similar to previous years.

With the improvement in cash earnings the Board has been able to reassess its shareholder distribution policy and this is reflected in the improvements to the dividend rates and the inclusion of a special dividend paid in December. As stated in my March 2025 communication "we look forward to further reductions in interest rates charged, if these should materialize and the trading income is, as a minimum maintained, then a further review of the dividend rate will be contemplated".

Valuation
For the second consecutive year an increase in the Unrealized Value of the complex has been obtained.
The net positive change is $3.8 million dollars and this is further to the positive gain of $4.5 million in the previous year.

Year 2023 the fair value determination was $121,280,000, year 2024 $126,000,000, year 2025 $126,500,00 and this after the sale of the adjoining Chalmers Street properties. The previous decision to undertake the strengthening of the Mall to the appropriate NBS standards is no small factor to contributing to these positive outcomes. Though onerous at the time this now adds additional flexibility for future deliberations by the Board.

Shareholder Equity
Due to the factors listed above, Shareholder Equity continues to improve. Equity has increased for the year from $51.94 million to $57.51 million, an improvement of 10.73%. The percentage increase for the two-year period from year 2023 is 20.28% [$47.81m to $57.51m]. A simple calculation of Equity, adjusted by Financial Reporting requirements of a technical nature, divided by the number of shares provides a theoretical indication. This indication has a value of 95.4 cents per share and the determination is detailed within the Annual Report. The corresponding value last year was 86.6 cents per share.

The Loan to Value calculation is of importance, the property has been valued at $126.5m, the term loan balance $60.46m, which now equals an improvement to 47.8% [last year $126m / $66.06m, 52.43%]

Share Liquidity
The lack of liquidity continues to be of concern and recent sales of small parcels of shares do not reflect the underlying value of the asset held. The Annual Financial Accounts identify an improvement in profitability and equity and has been recognized, in tangible form, by the recent dividend rate increases.
Whether the timing is appropriate to initiate sale proceedings to realize the inherent value, this will most probably be a subject of debate at the forthcoming Annual General meeting.

Summary
The improvements to cash flow due to careful management and reducing interest rates, has generated a climate of optimism and, at the immediate, allows the Board an ability to explore further options within its governing role.

I bring to your attention the many positive financial highlights included within the Annual Report of which this Chair Report is a part.

Leasing outcomes, though tight, remain up-beat in light of recent rent review conclusions and the energy expressed by the Colliers Leasing Team. New tenancy negotiations are underway, one, which is at an advanced stage, would have a significant strategic impact if concluded.

We are confident that with the frameworks and communications that have been established, the continuance of disciplined financial management, the rapport between the Board and its Managing Agents, Colliers, the indications of the completed forecasts and budgets for the ensuing year, that the Company will enjoy positive outcomes in the next twelve months.

Michael Keyse:
Chair